



Memorandum

To: Honorable Mayor Maso and the Frisco City Council
Thru: George Purefoy, City Manager
From: Amy Gill, Assistant to the City Manager
CC: Henry Hill, Ron Patterson, Nell Lange
Date: 10/16/2008
Re: Oncor Rate Denial

Action Requested:

Consider and act upon approval of a resolution authorizing Cities Aggregation Power Project (CAPP) to negotiate and execute an electric supply agreement and committing to purchase energy via CAPP through December 31, 2013.

Background Information:

CAPP's current electric contract will expire on December 31, 2008. The CAPP Board has approved indicative electric pricing available through FPL Energy and Direct Energy Business Services (DEBS) for all CAPP members for a five (5) year term beginning January 1, 2009 through December 31, 2013. Energy markets have been falling in response to recessionary pressures and the CAPP Board desires to lock-in very favorable gas based pricing for as long as possible (five years). If members act quickly, CAPP should be able to fix rates for each of the next five years at commodity prices (i.e. excluding non-bypassable wires charges) that range from 8.0 cents (possibly lower) to 8.5 cents per kilowatt hour. This means that CAPP members will lock-in prices for five years that are below electric prices members are currently paying.

The resolution authorizes CAPP to act as an agent to negotiate and execute a contract for the member's electricity needs, in the same manner as the energy contracts CAPP has put together for members over the past six years. The resolution streamlines contracting procedures and empowers the Chairman of CAPP to sign a contract with the selected power provider on behalf of all CAPP members for 2009 - 2013 energy needs. There is no prepayment of capacity costs or debt allocation associated with this contract. In addition, the resolution reiterates that each member is obligated only for its proportionate share of the contracted load.

Though council is currently considering the ordinance to participate in the long term purchase power agreement (PPA) with Luminant, CAPP requests action to pass the attached resolution.

FPL Energy will be the wrap energy provider for the power needs not served by the PPA. Because of this and at the Board's instruction to provide added protection for all CAPP members, FPL Energy has agreed to initially secure 100 percent of the power needs for all CAPP members, including those participating in the PPA. For those members participating in the PPA, FPL Energy will allow CAPP/STAP to exercise a one- time option to back out of the FPL Energy contract the portion of energy associated with base load and substitute energy under the Luminant agreement. Although it is not anticipated that CAPP would be unable to issue bonds to fund the prepayment required by the PPA, this added security provided by FPL Energy is important as we await the full ramifications of the unfolding credit crisis.

Board Review/Citizen Input:

None.

Alternatives:

Deny the resolution and provide staff direction.

Financial Considerations:

This resolution will impact the city's ability to secure favorable power rates. The ultimate rate is unknown until the price is locked in.

Legal Review:

The resolution was drafted and distributed by CAPP's attorneys.

Supporting Documents:

- Resolution

Staff Recommendation:

Staff recommends approval of a resolution authorizing Cities Aggregation Power Project (CAPP) to negotiate and execute an electric supply agreement and committing to purchase energy via CAPP through December 31, 2013.

Thank you for your consideration of this item, if I can be of any support, please contact me at 972-292-5103 or by email at agill@friscotexas.gov